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SUBJECT: TOURISM IN COLOMBIA: RECENT GROWTH UNDER THREAT

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¶1. SUMMARY: Colombia's tourist industry continued its rapid growth in 2008, increasing 16 percent, but local stakeholders fear the global financial crisis threatens recent gains. Tourism leaders worry the crisis will negatively affect both the number of tourists visiting Colombia as well as the much-needed GOC investment to increase the sector's competitiveness. There are hopes that GOC incentives and a weakening peso will cushion the blow, but until concentrated industry and GOC efforts are made to improve the overall quality of tourism infrastructure and services, Colombia's travel sector will remain uncompetitive with other international destinations and more vulnerable to external shocks. END SUMMARY.

2008: Another Growth Year

¶2. Tourism, after petroleum and coal, represents Colombia's third largest export, with growth having continued its impressive climb in 2008. In 2008 2.5 million visitors entered Colombia, a 16 percent increase over 2007 (ref A). According to Minister of Commerce and Tourism (MOC) Luis Plata, tourism added a record USD 2.2 billion to Colombian GDP in 2008. The MOC highlights that in addition to a 7.5 increase in air travel, the number of cruise passengers entering Colombia increased by 172 percent. Local experts attribute the growth to improved security, efforts to improve Colombia's image abroad, and GOC initiatives to create a favorable investment environment. However, all stakeholders note that 2009 year-to-date tourism statistics have fallen dramatically.

Effects of the Financial Crisis Thus Far

¶3. According to Sergio Diazgranados, president of Colombia's Tourism and Travel Agency Association (ANATO) and former MOC vice-minister for trade, industry stakeholders are concerned both with reduced tourist travel, as well as with decreased investor interest in Colombia's tourism infrastructure. Jean Claude Bessudo, the president of Colombia's largest travel agency Aviatur, told us that it is impossible to predict the full impact of the crisis but that all in the sector are bracing for a difficult year. He said that while the GOC can encourage investment through incentives, it cannot convince people to keep traveling. Bessudo observed that compared with the same period of 2007-08, travel agency sales dropped 16 percent during the crucial December-January holiday season, airline travel fell 27 percent (ref B), and hotel occupancy has dropped to 48.6 percent in 2009 -- its lowest level in the last five years.

Reduced Investment Impacts Sector's Competitiveness

¶4. Bessudo expressed doubt about the GOC's ability to increase investment to promote the sector's competitiveness. Diazgranados added that tourism-related associations collaborated with the GOC in 2007 on competitiveness plans, which they had hoped would receive increased GOC financing in 2009-2010. He said with GDP growth estimates reduced to 1-2 percent and shrinking government revenues, such spending now seems implausible (ref C). ProExport Vice-President for Tourism Ricardo Galindo noted, however, that the GOC remains committed to supporting the sector's growth, even if it must now postpone certain initiatives (as all governments are presently doing). He added that even if spending does not increase, the GOC already offers significant tax incentives to promote tourism investment and is committed to continuing its contributions to Colombia's tourism promotion fund.

GOC Efforts to Sustain Industry

¶5. Galindo reiterated that Colombian law provides a 30-year full tax exemption for the construction of new hotels and a partial exemption for remodeled ones, the longest tax benefit offered by Colombian law. He also highlighted a 20-year income tax exemption for eco-tourism service projects, value-added tax exemption for air tickets and tourist packages, and the development of free trade zones for tourism. The GOC also hopes that increased airline connections, which introduced low-cost carriers Jet Blue and Spirit, will keep people traveling. Bessudo noted, however, that the GOC is not consistent in its tourism plans. He said the GOC is attempting to market Colombia as a "product-driven" destination (i.e. eco-tourism, bird watching, medical tourism, conference destination, etc), which requires a prioritization on high-quality service provision, rather than simply offering investment incentives. He said the industry will never rise to a world-class tourist destination until the GOC develops a comprehensive development plan. Diazgranados also confirmed that improving Colombia's human resource deficit is an ANATO priority, as the industry attempts to develop niche tourism markets.

Promotion Fund Continues To Grow

¶6. Despite the financial crisis, all local experts said that Colombia's image abroad is still the leading threat to the sector. To counter that image, in 2006 Colombia established a fund to promote Colombia as a tourist destination, beginning with USD 1 million. Presently the fund, through monthly contributions from the tourism associations -- ANATO, Colombian Hotel Association (COTELCO), Colombian Restaurant Association (ACODRES) -- and other tourism entities such as ProExport, contains USD 20 million. The MOC manages the fund, which supports international public relations tools such as commercials, as well as small-scale capacity-building competitiveness initiatives. Diazgranados said the fund is the most successful public-private partnership created to promote the sector, noting highlights such as a Colombian tourism commercial during CNN's Presidential Election night coverage. He expressed confidence the fund will continue to thrive in 2009 as it is not exclusively based on GOC financing.

Weakening Peso: Protection for Local Industry

¶7. Diazgranados also told us the weakening peso should help protect the industry during 2009 as it becomes more expensive for Colombians to travel overseas. He believes Colombians will still travel during the crisis, choosing local rather than international travel due to value of the dollar. ANATO's Executive Director Paula Calle added that 63 percent of tourism in Colombia is local, with statistics indicating that travel is still occurring, albeit in low cost ways. Calle mentioned that travel agencies are not yet closing

their doors, but are rather changing their operations to focus on lower cost packages or destinations. She expressed concern, however, about the industry's strength if the crisis deepened, stating that eventually Colombians would bypass travel agencies to cut costs, threatening the entire sector.

COMMENT: Crisis Underscores Investment Needs

¶8. 2009 will be a difficult year across the board for the Colombian economy, even more so for a tourism sector that is finally emerging from years of sluggish activity. Tourism faces not only traditional obstacles such as an inadequate infrastructure and Colombia's negative international image, but must also withstand reduced GOC investment and depressed demand from its primary source of international travel (U.S., Venezuela and Ecuador). As a market that is not internationally known or established, Colombian tourism finds itself more vulnerable to the external shock of a global downturn than traditional destinations in Latin America and the Caribbean.

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